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SUBJECT: Lisbon Acton Program: Its All About Growth and Jobs, or Is It?

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1. (SBU) Summary: On February 2 European Commission President Barroso presented his proposal to make economic growth and job creation the focus of EU activities for the next five years. To move beyond slogans, Barroso has proposed setting out who, the EC or member states, is responsible for what reform, drawing up roadmaps for their completion and establishing progress indicators to chart progress. The tightly focused "Partnership for Growth and Jobs" promises to generate higher real GDP growth of 3 percent and six million jobs by 2010. The Commission is asking for member state endorsement at the March 22 Council. Getting such an endorsement is a forgone conclusion. The question is whether Barroso's efforts will fare better than the Lisbon Agenda that promised to make Europe the most dynamic economy in the world by 2010.
2. (SBU) Some trends favor Barroso's enterprise. Many EU member states are undertaking serious reforms in labor markets and social security systems, entertaining tax reductions to spur investment and consumption, and stepping up R&D activities. Barroso has staked his political reputation and those of his fellow Commissioners on the success of his program, calling his team the "Lisbon Commission." His fellow Commissioners are speaking with one voice on how they can promote jobs and growth in their own areas of responsibility.
3. (SBU) Still, the risks of becoming another muddle are already apparent. Adding on projects either because they are favorites of member states or already in the Commission's work plan risks diluting the effort. Allowing member states to draw up their own national programs increases the risk of unfocused effort. Protests that important social and environmental aspects have not been given adequate emphasis have not been quelled with Barroso's logic that growth is needed precisely to retain Europe's social cohesion and sustainable development. These risks, however, could be overcome with skillful leadership, thoughtful coordination between member states and the Commission, and good fortune. One key is nurturing a constituency for change. The other, as we were reminded by a Luxembourg official, rests with member states. With continued high unemployment, looming higher costs of ageing populations, and more intense competition within the EU, it is hard to imagine member states not doing anything over the next five years. End Summary.

The Launch: Growth and Jobs Are the Next Great European Project

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4. On February 2 EC President Barroso presented his detailed program for creating economic growth and jobs. The proposal was in the form of a Communication to the Spring European Council which will take place March 22. Barroso asks the Council to launch a new Partnership for Growth and Jobs, endorse an EC action program, call for member states to establish their own action programs, and approve streamlined arrangements to manage the process to ensure effective results.
  5. (SBU) Barroso's initiative stems from the mid-term review of the Lisbon Agenda that was agreed in March 2000. The objective of this Agenda was to make the EU the "most dynamic and competitive knowledge-based economy of the world." An assessment of progress by former Dutch Prime Minister Kok reports that achievements to date are "very mixed and much needs to be done in order to prevent Lisbon from becoming a synonym for missed objective and failed

promises."

16. (SBU) The three themes of the Communication are to (a) focus on policies with the greatest impact on economic growth and jobs; (b) mobilize support for change thereby ensuring national ownership of new measures; and (c) simplify and streamline procedures to ensure a clear delineation of responsibilities and regular assessments of progress.
17. (SBU) Economic growth and job creation are the immediate targets of the new action program. Quoting from Kok's assessment, the Commission's paper states that: "The promotion of growth and employment in Europe is the next great European project." The Communication also states that the Commission is fully committed to sustainable development and modernizing and advancing Europe's social model. Without growth and job creation, such objectives would not be achievable, in the Commission's assessment.
18. (SBU) Mobilizing support for the program at the EU and national levels is important for member state "buy in." Commission and member state officials often afford little public airing of programs emerging from Brussels. These include the recommendations for national structural policy reforms contained in the Broad Economic Policy Guidelines that are duly endorsed every spring by the Council. Basing national commitments on domestic political consensus would help ensure ownership of the programs.

Contents: Central Policy Areas and EC and Member State Responsibility

19. (SBU) The proposed "Lisbon Action Program" consists of a European Community Action Plan and National Action Plans to be drawn up by member states. Ten Central Policy Areas to be given attention are: (1) the internal market; (2) competition; (3) improved regulation; (4) infrastructure; (5) R&D; (6) innovation; (7) industrial base; (8) employment and modernization of social protection systems; (9) adaptability of workers and flexible labor markets; and (10) investment in human capital.
10. (SBU) For each Central Policy Area action either the EC or member states are assigned action for specific policy measures. Each policy measure would have a roadmap for its completion, indicators for benchmarking progress, and an indication how the measure would effect economic growth and jobs. A selection of some of the proposals appears in the last section of this message.

Governance: Deliverance is Achilles Heel

11. (SBU) Ensuring that the Commission, Parliament and Member States deliver on their responsibilities has been the "Achilles heel" of the Lisbon Agenda, in the words of the Commission's paper. Assigning responsibilities and charting progress against objective indicators would help ensure accountability. Each member state would appoint a government official ("Mr. or Ms. Lisbon") responsible for coordinating the programs and reporting on progress.
12. (SBU) The Commission would (a) assist member states in drawing up their national programs and (b) evaluate the targets and measures. Each national program would have three types of programs: macro and budget; labor market; and structural reforms. The Commission will integrate its Broad Economic Policy Guidelines and Employment Guidelines into one document by the time of the Spring Council that would help "frame" member state measures. According to a Commission official, member states would be expected to draw up their national programs by October.
13. (SBU) By January 2006 the Commission staff will assess these programs in light of the Lisbon Action Program objectives. In the fall 2006 and again in 2007 the Commission would undertake a "light review" of progress and issue a Progress Report to the Council. In 2008 the Commission would perform an in-depth review that would start off a second three-year review cycle. Commission observations will become increasingly pointed if progress were faltering.

Growth: Not Unreasonable Prospects

14. (SBU) The Commission states that it would "not be unreasonable" to expect that full implementation of the Lisbon Action Program that they are proposing would lift current EU growth potential, which is probably around 2 percent, closer to 3 percent by 2010 and increase employment by six million. It offers several examples.
15. (SBU) Completion of the single market in services would

boost GDP by 0.6 percent and employment by 0.3 percent. Integration of EU financial markets would lower capital costs for firms, increasing GDP by 1.1 percent and employment by 0.5 percent in the long run. Increasing R&D expenditures from 1.9 percent to 3 percent of GDP could raise GDP by 1.7 percent. Better labor market policies and tax and benefit systems could lift worker participation rates and reduce unemployment by one percent. Finally, Structural and Cohesion Funds could comprise a significant share of GDP in some new member states, helping to boost their growth substantially.

Observations: What Makes This Different  
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16. (SBU) While there is little question that the Council will endorse something along the lines of the Barroso paper, the more interesting question is whether Barroso's efforts will result in anything more than the Lisbon Agenda.
17. (SBU) Rather than concentrating action, annual discussions of the Lisbon Agenda became the occasion for the current EU Presidency to gain agreement on its favorite project, diluting focus in an ever-growing volume of EC documentation. The Agenda began to resemble a heavily ornamented Christmas tree rather than a sleek, goal-oriented MBA's business plan. By last count there were 28 main targets, 120 secondary targets and 117 indicators encased in a cumbersome reporting process.
18. (SBU) The ideas in the Commission's recommendation are not novel. Most were contained in a report by a group of economic experts to Commission President Prodi in July 2003 chaired by Prodi's advisor Sapir. Regrettably, one idea did not find its way into Barroso's paper: that EU budget be directed away from agricultural supports as they do not promote growth and employment.
19. (SBU) What is new is that the Commission President would stake his political reputation and that of his fellow commissioners, on a program focusing on economic growth and employment. There are some favorable winds for doing so. One is that many European countries are now embracing the kinds of structural reforms long advocated by the Commission (and IMF and OECD, for that matter). Pursuit of labor market and social security reforms, lower tax burdens and better functioning capital markets are now everyday news. For example, France's National Assembly approved a bill February 8 allowing workers to work more than 35 hours a week.
20. (SBU) Another favorable wind is that his fellow Commissioners are clearly on board, speaking with one voice on how they can contribute to the growth and jobs goals. Good people can make a difference, in the judgment of one pro-reformer. Competition Commissioner Kroes is undertaking her own review to promote competition in transport, energy and financial markets. Commissioner Hubner wants to channel structural and cohesion funds to promote investment, R&D and SMEs. Commission Vice President Verheugen responsible for Enterprise and Industry talks of "stringent action plans" by member states and creating a business-friendly environment. Commissioner McCreevy does not want to consider any more financial market regulations without first seeing an impact assessment.
21. (SBU) There also are headwinds. One is that the focus becomes diluted. This is already happening in several ways.
22. (SBU) One dilution mode is including pet projects of member states and the Commission. Moving from Kok's five priorities (knowledge society, internal market, business climate, labor market, environmental sustainability) to ten in the Commission's Communication is a symptom of this development. Including "infrastructure" as a Central Policy Area is a bow to the "growth initiative" of the Italian Presidency that experts concede will have little impact on economic growth. As the Commission's recommendations makes the rounds in various Councils and member state capitals, relevant ministers are more likely to broaden the focus rather than sharpen it.
23. (SBU) Widening the focus to encompass more on social and environmental programs also is occurring. Even though the Kok report called for having a limited number of priorities, it included "environmental sustainability" over the objections of those favoring a sharper focus. The Commission's Communication contains several social and environmental objectives, like equal opportunity employment, "inclusive labor markets," and promoting environmental friendly technologies.
24. (SBU) These are worthwhile objectives. Barroso's logic, however, is that economic growth and job creation are the foundations for ensuring retention and advancement of Europe's model for social cohesion and environment. Kok and Sapir espoused this logic that as found credence in some

member states. Some critics, however, complain that not enough attention is given to these areas.

125. (SBU) On February 8 Luxembourg Labor and Employment Minister Biltgen declared that "we must show that social Europe still exists." On February 9 the Commission obliged, issuing a Communication on the Social Agenda that "complements and supports" the Lisbon Action Plan by promoting the social dimension of economic growth. The Social Agenda covers many of the same issues in the Action plan, such as portability of pensions, generating jobs for youths, and supporting member state pension and health care reforms. Even so, rather than being viewed as complementary, some interpret this Agenda as backing off from the primary focus on economic growth and jobs.

126. (SBU) Allowing member states to draw up their own programs risks weak national programs. The logic is that allowing members to draft their own programs will increase member state ownership. More to the point, they should contain programs that may be realistic given local politics. But will they be sufficiently ambitious? While the Commission's assessment could reveal an unfocussed or unambitious program for what it is, the Commission publicly has not been too harsh on member state inaction, suggesting that once off track a member state is likely to stay off track.

127. (SBU) Still, with careful leadership, a constructive cooperative relationship with member states and a bit of good fortune, the new effort could turn out differently. One key is to build a constituency for change. Luxembourg's Prime Minister and President of the European Council who intends to get the new program through the March Council meet with leaders of industry, social non-governmental organizations and EU environmental groups on February 10 to help calm the waters. Reforms gathering support in member states suggest that, for whatever reason, constituencies for change exist, even if they are not as vocal as others.

128. (SBU) The second key, as a senior Luxembourg official pointed out, rests with member states. They are responsible for national economic reforms as well as implementing those directives and regulations agreed at the EU level. Given the continued high levels of unemployment, looming costs of ageing populations, and more intense competition within the EU, it is hard to imagine member states not doing anything over the next five years.

#### Central Policy Areas for Lisbon Action Program

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129. (SBU) The following are some brief examples from the Commission's proposal for a Lisbon Action Program by Central Policy Area, designating either the EC or member states (MS) as having the lead for action:

##### 1I. Extend and Deepen Internal Market

EC Action: Free Market for Services by removing barriers to trade and investment in services - adoption of Services Directive by end 2005

EC Action: Free Capital Markets - propose directive for payments system by June 2005; consultation papers on financial services by May and on asset management and mortgage credits by July; propose legislation on clearing and settlement by early 2006; proposals for single market in asset management by end 2006/early 2007

MS Action: Effective implementation and enforcement of internal market directives

##### II. Open and Competitive Markets Inside and Outside the EU

EC Action: Completion of the Doha Round by end 2006/early 2007

EC Action: International Regulatory and Administrative Convergence to reduce barriers as follow up to US-EU Summit

EC Action: Selective sector screening for competition, e.g. energy and transport

EC Action: Reform of State Aid Architecture, less and better targeted - State Aid Action Plan by March 2005

MS Action: Reduction of state aids and redirection of aids to Lisbon objectives

##### III. Improve European and National Regulation

EC Action: Impact Assessment of legislation - Commission to issue Communication on Better Regulation and Competitiveness by March 2005; adoption of guidelines for assessments by March 2005; adopt an internal mechanism to conduct such assessments by June 2005; external quality review of assessments by end 2005; progress report spring 2006.

MS Action: National programs for impact assessments and

reduction of administrative burdens.

#### IV. Expand and Improve European Infrastructure

EC Action: TransEuropean Network (TENs) program, including 45 quick start projects to be undertaken by 2010 as agreed in 2004.  
MS Action: Contributing to TENs projects in their areas; transposition and application of liberalization directives, e.g. energy services.

#### 1V. Increase and Improve R&D

EC Action: Double EU budget and improve effectiveness and coordination - Commission proposal by April 2005; channel state aids to R&D (revision of State Aid Architecture)  
MS Action: Increase R&D budgets to 3 percent of GDP

#### VI. Facilitate Innovation

EC Action: Adopt EU wide patent; facilitate financing for innovative enterprises -revision of State Aid Architecture and Communication on Venture Capital by end 2005; foster regional innovation - strategic guidelines for Cohesion Funds end 2005, operational programs by end 2006; foster ICT use - Communication on eEurope 2010 strategy paper by June 2005; Action Plan on Innovation by second quarter 2005, proposed Program on Competition and Innovation by April 2005; promote environmental technologies via R&D; promote "green procurement" by removing environmentally harmful state subsidies.  
MS Action: Reduce cost of patents, promote technology via public procurement; implement the European Climate Change Program

#### VII. Strengthen European Industrial Base

EC Action: Increase high-tech content of industry - eEurope communication by June 2005  
MS Action: Promote local and regional innovation clusters; improve inter-face between industry and research institutes; national strategy plans benefiting from cohesion funds to be linked to national Lisbon objectives.

#### VIII. Employment and Modernization of Social Protection Systems

EC Action: Promote equal employment rights; coordination of admission policy for immigrants - paper by December 2005  
MS Action: Set national employment targets; improve use of active labor market policies, increase female participation in labor force; reduce youth unemployment, develop active aging strategies, reform of pension and health programs.

#### IX. Adaptability of Workers and Enterprises and Flexibility of Labor Markets

EC Action: Ensure portability of occupational pensions - adopt legislation by 2007; Communication with key initiatives towards meetings employment and social goals of Lisbon by February 2005.  
MS Action: Promote employment friendly wages and other labor cost developments in line with productivity; promote flexibility combined with security in labor markets; reduce shadow economy.

#### 1X. Investment in Human Capital - Better Education and Skills

EC Action: Promote geographic and occupational mobility - adopt Directive on Recognition of Professional Qualifications in first half 2005; proposal for European Qualifications Framework in 2006; promote employment, education and training objectives via EU funds.  
MS Action: National strategies for life-long learning; improve quality of vocational training, increase investment in human capital.

122. (U) This message coordinated with Embassy Berlin.

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